State Profile

SUMMER 2003

Utah

Job losses in Utah ranked seventh-in the nation for the year ending January 2003 reflecting weakness in the construction and high-tech manufacturing sectors.

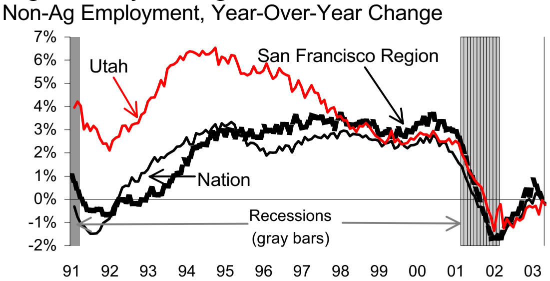
- Non-farm employment declined by 0.5 percent for the year ending January 2003 (see Chart 1). The highest job losses occurred in the manufacturing, leisure, and construction sectors.
- Employment in the manufacturing sector declined year-over-year by 3.4 percent as of January 2003. A continued contraction in venture capital funding contributed to weakness in the state's high-tech manufacturing industry, which lost almost 5,000 relatively high-paying jobs during the first six months of 2002 compared to a year ago.[1] Venture capital investment in the state declined from $706 million in 2000 to $223 million in 2001, and finished 2002 under $95 million.
- Employment in the leisure and hospitality sectors decreased year-over-year by 3.7 percent as of January 2003. Employment losses reflected sluggish winter-related tourism activity early in the 2002/2003 season, because of relatively low snow-pack levels. In addition, tourism activity remains lower than the historic high resulting from the 2002 Winter Olympics.
- As building related to the 2002 Winter Olympics ended, construction employment declined by 3.9 percent as of January 2003, when compared to a year earlier.

Weak employment conditions contributed to increasing bankruptcy and foreclosure activity in Utah.

- Utah continued to report one of the highest personal bankruptcy and foreclosure start rates in the nation as of fourth quarter 2002 (see Chart 2). Utah's relatively young population has been attributed as one possible reason for this phenomenon.[2]
- The median past-due consumer loan ratio among the 27 established community institutions[3] headquartered in Utah declined from 3.23 to 3.05 percent during 2002, while the median consumer loan net charge-off ratio increased significantly from 0.84 to 1.21 percent.
- Mortgage Bankers Association of America survey data suggests a high but declining level of foreclosure activity in Utah. Consistent with that trend, Loan Performance Corporation reported that 16.8 percent of sub-prime mortgages in Utah were either past due or in foreclosure as of year-end 2002, down from 18.6 percent one-year earlier, but still far above the national average of 10.8 percent. In contrast, among Utah-based established community institutions, the median past-due 1-4 family mortgage ratio rose from 2.04 to 2.65 percent during the period.

Chart 1: Utah Employment Declined Significantly During the Last Recession

Non-Ag Employment, Year-Over-Year Change

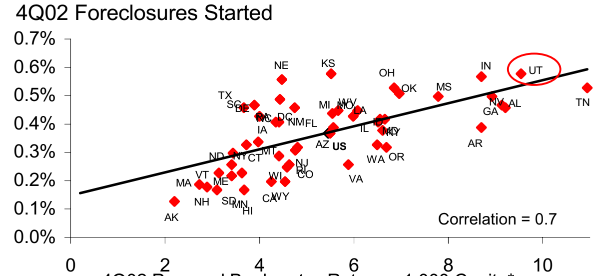


Note: End of 2001 recession projected to be February 2002; official date not yet determined

Source: Bureau of Labor Statistics

Chart 2: Foreclosures Correlated to Personal Bankruptcies in the Fourth Quarter 2002

4Q02 Foreclosures Started



4Q02 Personal Bankruptcy Rate per 1,000 Capita*

*Note: The bankruptcy rate was estimated using personal bankruptcies for full year ended 4Q02 and population figures for the year 2001.

Source: U.S. Courts, Bureau of Econ. Analysis, and Mortgage Bankers Assoc.

[1] Nancy Perkins and Dave Anderton, "Southern Utah is Hot Spot in Economy," *Deseret News*, January 9, 2003.

[2] Steven Oberbeck, "Utah Set Bankruptcy Record in 1st Quarter," *The Salt Lake Tribune*, April 8, 2003.

[3] Established community institutions are defined as insured institutions open more than three years, with less than $1 billion in total assets. Industrial loan companies and specialty institutions are excluded from the definition.

- Continued out-migration from Salt Lake City and Utah in general could place downward pressure on home prices[4] and affect credit quality among mortgage lenders.

Commercial real estate (CRE) market deterioration in the Salt Lake City MSA could adversely affect a significant number of insured institutions.

- The office vacancy rate in the Salt Lake City metropolitan statistical area (MSA) was nearly 20 percent as of fourth quarter 2002, up sharply over the past two years (see Chart 3), and a reflection, in part, of weakness in the high-tech sector. Vacancy rates in the retail, multi-family, and industrial property sectors also deteriorated during the period, although not as dramatically.
- Deterioration in Salt Lake City's CRE markets is a concern, because most established community institutions headquartered within the MSA hold high CRE loan[5] concentrations. The median CRE loan-to-Tier 1 capital ratio among this group of institutions was 429 percent as of year-end 2002, up from 164 percent ten years earlier. Rising construction and development (C&D) loan concentrations, one of the traditionally higher-risk components of CRE lending, contributed materially to the trend. Over the past decade, the median C&D loan-to-Tier 1 capital ratio reported among established community institutions based in the Salt Lake City MSA increased more than four-fold, from 38 to 178 percent.
- Softer CRE conditions may have adversely affected credit quality among banks operating in the market. The fourth quarter 2002 median past-due CRE loan ratio among established community institutions headquartered in the Salt Lake City MSA was 2.73 percent, down from 2.97 percent one year earlier, but still the highest median past-due CRE loan ratio of any major MSA in the San Francisco Region.[6]

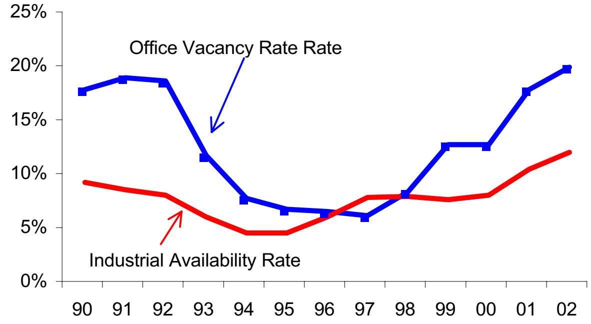
[4] "Southern States Gaining Appeal, North Sees More Leaving, According to Latest United Van Lines Study," United Van Lines Press Release, January 7, 2003.

[5] CRE loans include mortgages secured by nonfarm-nonresidential, multifamily, and construction projects.

[6] Based upon a comparison of fourth quarter 2002 median past-due CRE loan ratios within 19 MSAs in which at least 5 established community institutions with CRE loans were headquartered.

[7] Established institutions include insured institutions open more than three years. Specialty companies include those with loan-to-asset ratios below 25 percent, unfunded credit cards exceeding total assets, consumer loan-to-Tier 1 capital ratios exceeding 300 percent, and additionally, industrial loan companies.

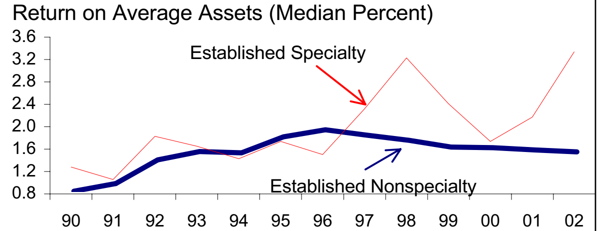
Chart 3: Vacancy Rates in Salt Lake City Rose Above 1990 Levels



Source: Torto Wheaton Research

Chart 4: Profits Were Markedly Better Among Utah-Based Specialty Institutions

Return on Average Assets (Median Percent)



Note: Established specialty = insured institutions open more than three years with industrial loan company charters, loan-to-asset ratios below 25 percent, unfunded credit cards exceeding total assets, or consumer loan-to-Tier 1 capital ratios exceeding 300 percent.
Source: Utah Bank and Thrift Call Reports (December of each year)

Interest rate declines during 2002 pressured earnings among non-specialty institutions, but boosted profits among specialty[7] lenders.

- The median return on average assets (ROA) ratio reported by all Utah-based insured institutions through fourth quarter 2002 remained flat year-over-year at 1.59 percent. Reduced overhead offset net interest margin (NIM) declines experienced by the majority of institutions.
- Established specialty institutions, which accounted for 44 percent of established institutions headquartered in the state, reported much stronger ROA performance (see Chart 4). These companies often pursue higher-risk, higher-yielding loan niches or have non-traditional balance sheet structures. Most of these institutions reported persistently high asset yields and largely non-core, rate-sensitive funding bases, and as a result, widening NIMs during 2001 and 2002.

Utah at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	60	59	61	55	53
Total Assets (in thousands)	138,200,862	132,770,995	104,463,753	60,283,527	46,522,429
New Institutions (# < 3 years)	10	12	13	11	12
New Institutions (# < 9 years)	26	28	26	22	20

Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	12.08	13.17	12.70	12.72	12.15

Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	3.33%	4.35%	3.67%	2.71%	2.47%
Past-Due and Nonaccrual > = 5%	14	22	17	10	11
ALLL/Total Loans (median %)	1.58%	1.65%	1.75%	1.84%	1.78%
ALLL/Noncurrent Loans (median multiple)	1.56	1.78	1.72	1.84	2.00
Net Loan Losses/Loans (aggregate)	2.65%	2.89%	2.32%	2.19%	2.79%

Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	6	10	8	8	6
Percent Unprofitable	10.00%	16.95%	13.11%	14.55%	11.32%
Return on Assets (median %)	1.59	1.59	1.48	1.60	1.73
25th Percentile	0.98	0.66	0.77	1.02	1.18
Net Interest Margin (median %)	5.60%	5.88%	5.95%	5.93%	6.30%
Yield on Earning Assets (median)	7.90%	9.04%	9.61%	9.00%	9.72%
Cost of Funding Earning Assets (median)	2.13%	3.16%	3.75%	3.21%	3.33%
Provisions to Avg. Assets (median)	0.47%	0.48%	0.37%	0.29%	0.37%
Noninterest Income to Avg. Assets (median)	1.32%	1.27%	1.53%	1.80%	1.96%
Overhead to Avg. Assets (median)	3.84%	4.51%	4.45%	4.29%	5.05%

Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	90.32%	86.64%	85.67%	85.16%	78.73%
Loans to Assets (median %)	73.50%	72.80%	69.14%	67.09%	65.30%
Brokered Deposits (# of Institutions)	31	26	21	18	13
Bro. Deps./Assets (median for above inst.)	23.51%	25.46%	33.52%	22.13%	13.61%
Noncore Funding to Assets (median)	25.97%	24.42%	19.27%	17.08%	14.97%
Core Funding to Assets (median)	50.28%	54.70%	50.30%	63.12%	67.13%

Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	43	42	42	37	36
National	7	7	8	8	8
State Member	6	6	6	6	6
S&L	1	1	1	1	1
Savings Bank	3	3	4	3	2
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Salt Lake City-Ogden UT	41	135,400,469	68.33%	97.97%
No MSA	12	1,460,363	20.00%	1.06%
Provo-Orem UT	7	1,340,030	11.67%	0.97%